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Procurement reform

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the detailed report of the Secretary-General on Investing in the United Nations: procurement reform (A/60/846/Add.5). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information and clarification.

2. The report describes measures implemented by the Secretariat in response to General Assembly resolution 59/288, as well as new initiatives planned or under

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way pursuant to the initial report of the Secretary-General on investing in the United Nations (A/60/692 and Corr.1 and 2) and Assembly resolution 60/260. The report also takes into account a study by an outside consultant on internal controls of the procurement operations of the United Nations and the report of the Office of Internal Oversight Services on the comprehensive management audit of the Department of Peacekeeping Operations (A/60/717), both undertaken in 2005. In his report, the Secretary-General focused on three main themes: (a) strengthening of internal control measures; (b) optimizing United Nations acquisition and procurement management; and (c) strategic management of United Nations procurement.

3. The Advisory Committee notes that there are a number of reports that will have a major impact on procurement reform that are still to come. Central among these is the report to be submitted to the General Assembly at its sixty-first session in response to paragraph 20 of General Assembly resolution 59/288 concerning the alignment of peacekeeping acquisition management responsibilities between the Department of Management and the Department of Peacekeeping Operations (see A/60/846/Add.5, para. 46). Other forthcoming reports of relevance to procurement reform will include the reports of the Secretary-General on governance, on accountability and on human resources reform. These will form part of the Secretary-General's detailed report on investing in the United Nations pursuant to General Assembly resolution 60/260.

4. **It is clear from the report that the emphasis has been on dealing with urgent internal control issues as identified in the above-mentioned reports of the Office of Internal Oversight Services (A/60/717) and the outside consultant. Other aspects of procurement reform are not as well developed in the report. The Advisory Committee will therefore confine its comments to the strengthening of internal control, and expects that other procurement reform measures will be elaborated in greater detail in forthcoming reports. Although the Committee would have preferred to deal with the subject of procurement comprehensively, it was explained that there was an urgent need for resources to implement necessary measures in the ongoing reform of procurement. Under the circumstances, the Committee, in the paragraphs below, offers some preliminary observations on the plans put forward by the Secretary-General without prejudice to what the Committee may observe or recommend following its consideration of the other reports related to procurement, which are forthcoming.**

II. Strengthening internal control measures

5. As noted in the report on procurement reform (A/60/846/Add.5, para. 9), action taken by the Secretariat to strengthen internal control measures has been clustered in five critical areas: (a) ethics and integrity; (b) management and staff; (c) procurement processes; (d) governance; and (e) information systems.

6. **The Advisory Committee welcomes the various measures being taken to segregate duties and processes so as to avoid conflict of interest and to increase transparency.** These include, among other things, a structural reorganization by which the secretariat of the Headquarters Committee on Contracts now reports to the Office of the Under-Secretary-General for Management rather than to the Office

of Central Support Services, as well as plans to establish an independent bid protest system, which would work outside of the reporting hierarchy of the Procurement Service.

A. Ethics and integrity

7. The Advisory Committee notes the actions taken to promote integrity and ethics in the Organization, as outlined in paragraphs 10 to 14 of the report. Of particular relevance to procurement are the independent bid protest system mentioned above, the United Nations Supplier Code of Conduct, which has been finalized by the Procurement Service, and the ethics guidelines for procurement staff, which are under final internal review and are to be issued in 2006 (A/60/846/Add.5, paras. 8 and 15-17). Upon enquiry, the Committee was informed that the ethics guidelines were completed; however, a conflict with the staff rules had been identified which will have to be resolved before they can be issued. **Every effort should be made to issue the ethics guidelines for procurement staff expeditiously and in all working languages.**

B. Management and staff

8. The Advisory Committee expects to comment on the issue of procurement management and staff in greater detail in the context of its consideration of the report on human resources management reform to be presented to the General Assembly at its sixty-first session.

9. The Advisory Committee notes with interest the intention of the Secretary-General to develop a career path programme for procurement staff, aimed at promoting job rotation between Headquarters and the field. In this connection, a lateral reassignment programme has already been initiated within the Procurement Service to ensure that staff do not deal with the same vendors for an extended period of time. It is expected that reforms in this area will also facilitate mobility of staff among the organizations of the United Nations system.

10. The Advisory Committee notes, from paragraph 20 of the report, that the Procurement Service has been working within the Inter-Agency Procurement Working Group to develop a common internal procurement certification programme. It has been recognized, however, that the administration of such a programme would be cumbersome and costly. Staff will therefore be encouraged to use external certification programmes available from procurement training institutes in various regions.

11. A model procurement training programme is contained in table 2 of the report. The aim is to train approximately 400 staff members across the Secretariat in procurement processes, with each staff member attending a minimum of two training sessions annually. **The Advisory Committee recognizes the importance of training for procurement staff. The Committee requests that information on the required professional qualifications for procurement staff, including certification, be provided in the upcoming report on human resources management reform.**

C. Procurement processes

12. In paragraphs 25 to 37 of the report, the Secretary-General described measures taken to improve procurement processes, including the updating of the Procurement Manual, promulgation of revised terms and conditions for tenders, strengthening of the Vendor Review Committee and the vendor roster and changed procedures for dealing with ex post facto cases. A review of procurement rules and procedures applicable to the field is also planned in order to establish special procedures to support immediate operational requirements. In addition, the Organization intends to adopt practices applicable to specific market segments and to realign the current procurement process to industry practices. **The Advisory Committee trusts that the industry experts to be engaged will review procurement practices and models to identify those applicable to the United Nations environment. The Committee points out that the procurement process is unduly slow and involves multiple and duplicative steps. The Committee trusts that the review will promote efficient delivery of services, both at Headquarters and in the field.**

D. Governance

13. One of the key issues to be addressed in procurement reform is the governance structure of procurement and delegation of procurement authority. In 2005, the Assistant Secretary-General of the Office of Mission Support in the Department of Peacekeeping Operations was granted procurement authority, which has been further delegated to directors of administration/chief administrative officers and chiefs of procurement and procurement staff in peacekeeping missions, allowing these individuals to enter into contracts up to $1 million per contract for core requirements and $200,000 for non-core requirements. In this connection, the Committee notes from paragraph 2 of the report that the value of procurement has reached approximately $1.8 billion per year. Of the total, the Committee was informed that approximately $180 million pertained to Headquarters procurement, $154 million to offices away from Headquarters and the remainder to field operations.

14. As noted in paragraph 46 of the report, recent audits have identified possible weaknesses in the control environment due, inter alia, to the split of responsibilities between the Department of Management and the Department of Peacekeeping Operations. A working group is being established to examine the issue. The results of the examination will be reported to the General Assembly at its sixty-first session pursuant to section B, paragraph 20, of Assembly resolution 59/288. In the meantime, in the proposed budget for the support account for peacekeeping operations (A/60/727, paras. 148-150), the Secretary-General has proposed the establishment of a dedicated capacity within the Department of Peacekeeping Operations to enable it to assume responsibility and accountability for the delegated procurement authority and exercise the newly vested oversight responsibilities in field procurement.

15. As noted above, following a recommendation of the Office of Internal Oversight Services, the reporting line for the Headquarters Committee on Contracts, which reviews procurement proposals in excess of $200,000, has been changed to eliminate the possibility of conflict of interest. Its secretariat now reports to the Office of the Under-Secretary-General for Management, and no longer to the Office

of Central Support Services, which is one of the major requisitioning offices within the United Nations Secretariat. A review of the financial threshold of the proposed procurement requirements that should be vetted by the Headquarters Committee on Contracts is scheduled for completion in September 2006. **In the view of the Advisory Committee, this is an important exercise, which it trusts will be completed on time.**

E. Information systems

16. As noted in the report (A/60/846/Add.5, para. 51), development work on the Headquarters version of the Mercury system has been suspended pending a decision about the replacement of the Integrated Management Information System with an enterprise resource planning system. An analysis of the costs and benefits of various options for the procurement system is under way, including the possible use of open source software, as requested by the General Assembly in section V, subparagraph (f), of its resolution 60/260. The Committee was informed that the analysis would form part of the detailed report to be submitted to the General Assembly at its sixty-first session on investing in information and communication technology (A/60/846/Add.1, para. 18). Related resource requirements, if any, would be presented to the Assembly at that time.

III. Optimization of acquisition and procurement management

17. This section of the report describes strategic initiatives being pursued by the Secretariat to optimize procurement performance, including

(a) Large-scale implementation of global systems contracts;

(b) Improved compliance with procurement planning requirements;

(c) Partnering with other organizations within the United Nations system through the development of the lead agency concept, expanded utilization of common services arrangements and extension of participation in systems contracts to other organizations, as well as utilization of systems contracts concluded by other organizations;

(d) Utilization of the best-value-for-money methodology;

(e) E-procurement and purchasing cards.

18. As noted in the report (A/60/846/Add.5, para. 63), in section V, subparagraph (h), of its resolution 60/260, the General Assembly called for an assessment of the effectiveness of internal controls of the United Nations organizations referred to in proposal 14 of the initial report of the Secretary-General on investing in the United Nations (A/60/692 and Corr.1 and 2), as well as an assessment of how these controls differ from those of the United Nations Procurement Service. **The Advisory Committee encourages the Secretariat to benefit from the experience of other organizations of the United Nations system and highlights, in this regard, the usefulness of the Inter-Agency Working Group on Procurement.** With regard to the lead agency concept, the Committee recalls its recommendation that the Administration, in further developing the concept, should issue guidelines ensuring that there is consistency in the relevant

procedures to determine specific needs and evaluate the ability of prospective vendors to meet those needs in a timely and cost-effective manner.

IV. Strategic management of United Nations procurement

19. This section deals with two issues: (a) the planned elaboration of a career development framework for procurement staff; and (b) measures to increase procurement opportunities and participation of vendors from developing countries and economies in transition. The career development programme is described in very general terms and is not ripe for consideration at this stage. **The Advisory Committee believes that consideration of this issue is better placed in the context of the report on human resources reform to be submitted to the General Assembly at its sixty-first session.**

20. Tables 3 and 4 (A/60/846/Add.5, para. 76) show the trends in procurement from developing countries and countries in transition for 2001 to 2005. **The Advisory Committee requests that information be provided to the General Assembly on the statistical analysis employed since there are a number of factors that should be taken into account in the evaluation of the data, including rules of origin**. The Committee notes that the Secretariat has largely used business seminars to increase awareness among vendors in these countries. **While the Committee recognizes the merit in continuing this endeavour, it would encourage the Secretariat to explore additional ways to promote procurement from developing countries and countries with economies in transition.** In this connection, the Committee also recalls General Assembly resolution 59/288.

V. Financial implications

21. Upon request, the Advisory Committee was provided with the following breakdown of resources requested for procurement in the proposed budget of the support account for peacekeeping operations (A/60/727), those proposed resources recommended for deferral by the Committee (A/60/807, para. 120) and additional resources requested in the report of the Secretary-General on investing in the United Nations: procurement reform (A/60/846/Add.5):

Table 1
Breakdown of total resources proposed for the Procurement Service and procurement-related activities in the biennium 2006-2007
(Thousands of United States dollars)

A. Support account

	Proposed in A/60/727	*Recommended by the Advisory Committee in A/60/807*	*Deferred by the Advisory Committee*	*Additional requests in A/60/846/Add.5*	*Total additional requests*	*Grand total*
	1	*2*	*3 = 1 - 2*	*4*	*5 = 3 + 4*	*6 = 2 + 5*
International staff	7 574.3	5 742.9	1 831.4	609.7	2 441.1	8 184.0
General temporary assistance	706.6	276.2	430.4	—	430.4	706.6
Consultants	20.0	20.0	—	840.0	840.0	860.0
Travel	299.1	299.1	—	200.0	200.0	499.1
Facilities and infrastructure	1 296.1	466.2	829.9	238.1	1 068.0	1 534.2
Communications	92.2	59.0	33.2	10.2	43.4	102.4
Information technology	139.4	73.4	66.0	23.1	89.1	162.5
Other services, supplies and equipment	393.0	393.0	—	10.0	10.0	403.0
Total	**10 520.7**	**7 329.8**	**3 190.9**	**1 931.1**	**5 122.0**	**12 451.8**

B. Regular budget (biennium 2006-2007)

Section 28 D: Resource requirements[a]

	2006-2007	*Proposed changes*		
Component	*Initial appropriation*	*Amount*	*Percentage*	*Total*
Section 28 D (Post)	88 481.4	29.1	0.0	88 510.5
Section 28 D (Non-post)	157 955.9	—	—	157 955.9
Subtotal	**246 437.3**	**29.1**	**0.0**	**246 466.4**

[a] See A/60/846/Add.5.

In total, in the context of the current report, the Secretary-General is requesting approval of $5,151,100, comprising $3,190,900 recommended for deferral in the report of the Advisory Committee on the support account, $1,931,100 in additional resources requested for the support account in the report of the Secretary-General on procurement reform (A/60/846/Add.5) and $29,100 under the regular budget.

22. As to staffing requirements, the Secretary-General is seeking approval of 20 posts and two positions funded under general temporary assistance, which had been requested in the proposed budget of the support account. When it considered the

proposed budget of the support account, the Advisory Committee had recommended deferring action on those posts and positions pending the issuance of the follow-up report of the Secretary-General on investing in the United Nations (A/60/807, paras. 63, 83, 101, 108 and 117).

23. In addition, the Secretary-General is requesting reclassification of the D-1 post for the Chief of Procurement under the regular budget to the D-2 level and six additional posts under the support account for the Procurement Service as follows:

(a) One D-1 post to oversee daily procurement activities of the Field Procurement Section and the Logistics and Transportation Section;

(b) One P-4 post for a staff member with information technology knowledge and skills to address system integration requirements, provide technical inputs to replace the current procurement information system and provide substantive support to the introduction of an enterprise resource planning system from the procurement operational point of view;

(c) One P-4 post for a staff member with knowledge of commercial contract laws to augment the capacity in the Procurement Service for managing procurement for highly specialized information technology and logistical requirements;

(d) Two P-4 posts to further strengthen the capacity of the Field Procurement Section. The Advisory Committee was informed that these staff were needed to help clear up backlog in the Section, which currently has over 140 requisitions outstanding, 36 systems contracts in progress and 16 systems contracts pending action, as well as a current backlog of 40 to 50 cases relating to local procurement proposals;

(e) One P-3 post to develop business seminar programmes for vendors in developing countries and countries with economies in transition.

24. Upon request, the Advisory Committee was provided with tables showing human resources requirements for procurement-related activities in the biennium 2006-2007 (see annex).

25. While it is clear that the proposals for procurement reform contained in the report of the Secretary-General merely represent a stage in a process that requires further development, it is equally clear that additional resources are urgently needed to move that process forward and to continue to deal with deficiencies that have been identified by the Office of Internal Oversight Services, the Board of Auditors and external consultants. The Advisory Committee therefore recommends approval of the requested resources totalling $5,151,100, as outlined in paragraphs 21 to 24 above.

Annex

Human resource requirements for procurement-related activities

A. Procurement Service: Department of Management

	Regular budget		Temporary post: Support account					Other		Total	
Category	*2005/06*	*2006/07*	*2005/06*	*2006/07*	*Change*[a]	*Deferred*[b]	*Additional request*[c]	*2005/06*	*2006/07*	*2005/06*	*2006/07*[d]
Professional and above											
D-2	—	1[e]	—	—	—	—	—	—	—	—	1
D-1	1	—	—	—	—	—	1	—	—	1	1
P-5	1	1	2	3	1	1	—	1	1	4	5
P-4	1	1	8	11	3	3	4	—	—	9	16
P-3	5	5	10	14	4	4	1	1	1	16	21
P-2	3	3	2	2	—	—	—	—	—	5	5
Subtotal	**11**	**11**	**22**	**30**	**8**	**8**	**6**	**2**	**2**	**35**	**49**
General Service											
Principal level	—	—	—	1	1	1	—	—	—	—	1
Other level	26	26	12	14	2	2	—	2	2	40	42
Subtotal	**26**	**26**	**12**	**15**	**3**	**3**	**—**	**2**	**2**	**40**	**43**
Total	**37**	**37**	**34**	**45**	**11**	**11**	**6**	**4**	**4**	**75**	**92**

[a] Proposed in A/60/727.
[b] Deferred by the Advisory Committee on Administrative and Budgetary Questions (A/60/807).
[c] Additional requests (see A/60/846/Add.5).
[d] Including additional resources proposed (see A/60/846/Add.5).
[e] Reclassification proposed A/60/846/Add.5.

B. Office of Mission Support: Department of Peacekeeping Operations Procurement Management Function

	Regular budget		*Temporary post*							
			Support account				*Other*		*Total*	
Category	*2005/06*	*2006/07*	*2005/06*	*2006/07*	*Change*[a]	*Deferred*[b]	*2005/06*	*2006/07*	*2005/06*	*2006/07*
Professional and above										
Assistant Secretary-General	1	1	—	—	—	—	—	—	**1**	**1**
D-2	1	1	1	1	—	—	—	—	**2**	**2**
D-1	1	1	4	6	2	—	—	—	**5**	**7**
P-5	2	3	17	19	2	1	—	—	**19**	**22**
P-4	3	3	68	76	8	1	—	—	**71**	**79**
P-3	2	5	99	104	5	—	—	—	**101**	**109**
P-2	5	6	6	7	1	—	—	—	**11**	**13**
Subtotal	**15**	**20**	**195**	**213**	**18**	**2**	**—**	**—**	**210**	**233**
General Service										
Principal level	—	—	14	14	—	—	—	—	**14**	**14**
Other level	11	12	133	138	5	—	—	—	**144**	**150**
Subtotal	**11**	**12**	**147**	**152**	**5**	**—**	**—**	**—**	**158**	**164**
Total	**26**	**32**	**342**	**365**	**23**	**2**	**—**	**—**	**368**	**397**

[a] Proposed in support account budget (see A/60/727).
[b] Deferred by the Advisory Committee on Administrative and Budgetary Questions (see A/60/807).

C. Office of Legal Affairs

	Regular budget		Temporary post							
			Support account				Other		Total	
Category	2005/06	2006/07	2005/06	2006/07	Change[a]	Deferred[b]	2005/06	2006/07	2005/06	2006/07
Professional and above										
Under-Secretary-General	1	1	—	—	—	—	—	—	**1**	**1**
Assistant Secretary-General	1	1	—	—	—	—	—	—	**1**	**1**
D-2	4	4	—	—	—	—	—	—	**4**	**4**
D-1	7	7	—	—	—	—	2	2	**9**	**9**
P-5	17	17	1	3	2	2	2	2	**20**	**22**
P-4	19	19	3	4	1	1	4	4	**26**	**27**
P-3	20	20	1	1	—	—	2	2	**23**	**23**
P-2	14	14	—	—	—	—	2	1	**16**	**15**
Subtotal	**83**	**83**	**5**	**8**	**3**	**3**	**12**	**11**	**100**	**102**
General Service										
Principal level	11	11	—	—	—	—	—	—	**11**	**11**
Other level	48	48	—	1	1	1	6	4	**54**	**53**
Subtotal	**59**	**59**	**—**	**1**	**1**	**1**	**6**	**4**	**65**	**64**
Total	**142**	**142**	**5**	**9**	**4**	**4**	**18**	**15**	**165**	**166**

[a] Proposed in support account budget (see A/60/727).
[b] Deferred by the Advisory Committee on Administrative and Budgetary Questions (see A/60/807).

D. Office of the Under-Secretary-General, Department of Management: Headquarters Committee on Contracts

			Temporary post							
	Regular budget		Support account				Other		Total	
Category	2005/06	2006/07	2005/06	2006/07	Change[a]	Deferred[b]	2005/06	2006/07	2005/06	2006/07
Professional and above										
Assistant Secretary-General	—	—	—	—	—	—	—	—	—	—
D-2	—	—	—	—	—	—	—	—	—	—
D-1	—	—	—	1	1	1	—	—	—	1
P-5	1	1	—	—	—	—	—	—	1	1
P-4	—	—	—	1	1	1	—	—	—	1
P-3	1	1	—	—	—	—	—	—	1	1
P-2	—	—	—	—	—	—	—	—	—	—
Subtotal	**2**	**2**	**—**	**2**	**2**	**2**	**—**	**—**	**2**	**4**
General Service										
Principal level	—	—	—	—	—	—	—	—	—	—
Other level	2	2	—	1	1	1	—	—	2	3
Subtotal	**2**	**2**	**—**	**1**	**1**	**1**	**—**	**—**	**2**	**3**
Total	**4**	**4**	**—**	**3**	**3**	**3**	**—**	**—**	**4**	**7**

[a] Proposed in support account budget (see A/60/727).

[b] Deferred by the Advisory Committee on Administrative and Budgetary Questions (see A/60/807).